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1962

Ninth Annual Report

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CANADIAN PETROFINA LIMITED

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Secrétaire,
Canadian Petrofina
Limited,
505 ouest, Boulevard Dorchester,
Montréal, Qué.

CANADIAN PETROFINA LIMITED

Ninth Annual Report 1962

Board of Directors

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Jean Raymond, Q.C.
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Laurent Wolters

Principal Officers

W. H. Howard, C.B.E., Q.C.
Chairman of the Board

A. F. Campo,
President

G. S. Hanna,
Vice-President (Supply and Distribution)

H. J. Hughes,
Vice-President and Comptroller

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Vice-President (Marketing)

K. S. C. Mulhall,
Vice-President and Treasurer

Trajan Nitescu,
Vice-President (Exploration and Production)

J. R. Patton,
Vice-President (Refining)

A. W. McLeod,
Secretary

Executive Offices

505 Dorchester Blvd. W., Montreal, Canada

Auditors

Clarkson, Gordon & Co.

Transfer Agents

Montreal Trust Company
Morgan Guaranty Trust Company
of New York

Registrars

The Royal Trust Company
The Royal Bank of Canada Trust Company

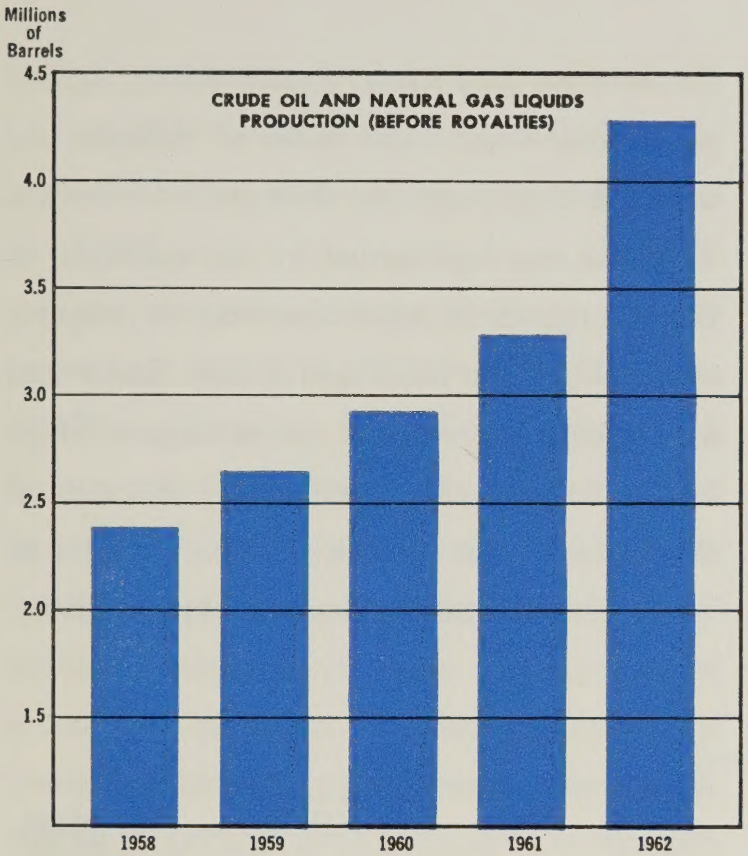
CANADIAN
PETROFINA
LIMITED

To the Shareholders: The business expansion which began early in 1961 continued its upward trend through 1962 but the curve began to flatten out as the year drew to a close. Despite the disturbances caused by "balance of payment" problems and fluctuations in the foreign exchange rates, the economy registered one of its strongest annual gains in the post-war period.

The Canadian oil and gas industry experienced another year of substantial growth in the producing sector. Refining and marketing recorded volume gains, in keeping with the favourable business conditions which prevailed in 1962, but these volume gains were offset by a weak price structure for finished products.

Production of crude oil and condensates increased about 14%, thus surpassing the production target set as a result of the National Oil Policy. This gain in output was almost equally shared between exports to the United States and increased refinery throughput in Canada.

Natural gas production enjoyed a record year with a sales increase of close to 40%. The bulk of this higher volume was exported to the United States.



The total demand for crude oil and refined products in Canada increased 4% in 1962 while refinery throughput was up about 5.5%, reflecting a decrease of imported products.

Profit margins, influenced by the chronic weak price structure for finished products, were also affected by an increase in the cost of crude from Western Canada, as well as by increased costs of imports as a result of the higher exchange rates on U.S. funds.

The year 1962 saw the further development of a situation in the retail marketing of gasoline which requires special comment here.

Some of the major refiner-marketers continued to create and magnify the "price war" problem by granting to certain retail units volume discounts on gasoline which enabled those operators to use gasoline as a loss-leader and a traffic builder. The impact of this practice on the local service station operator and on the general price structure of gasoline has been serious.

This situation has contributed to a reduction in earnings from marketing operations of your company, despite a substantial increase in the volume of gasoline sold during 1962. Offsetting this, to some extent, has been the profit accruing from the sale of other refined petroleum specialties.

Your company's refinery at Pointe-aux-Trembles operated at maximum capacity throughout the year and, notwithstanding adjustments in marketing patterns occasioned by the National Oil Policy, it appears that the refinery will run at a comparable level in 1963.

The operations of our exploration and production department in Western Canada, through our wholly owned subsidiary, Canadian Fina Oil Limited, have been very profitable during the past year. The volume of

crude oil production increased 10%, while sales of natural gas liquids and natural gas almost tripled. Earnings from crude oil, sulphur, natural gas and condensate operations are responsible to a large extent for the increase in the consolidated profit for 1962.

We are pleased to report that during the year 1962, Mr. Roger Létourneau, Q.C. of Quebec City joined the Board of Directors of your company.

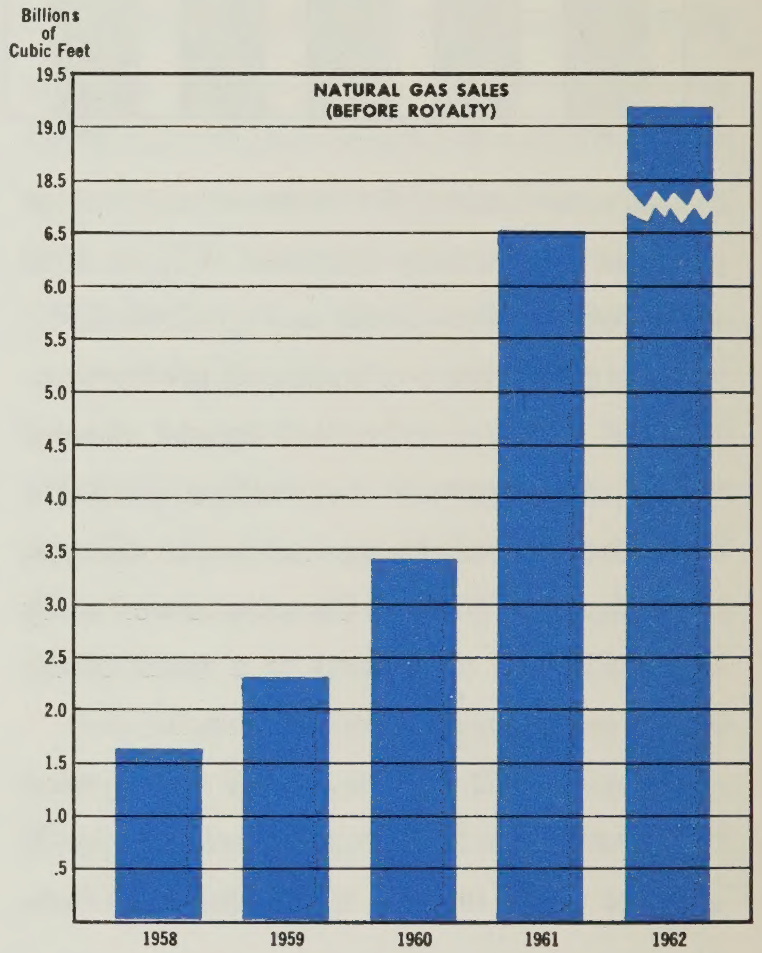
Your Directors record their recognition and appreciation of the excellent and loyal efforts of your company's employees during the year.

The activities of your company's major departments are outlined in the following pages.

Exploration and Production

During 1962, Canadian Petrofina, through its wholly owned subsidiary, Canadian Fina Oil Limited, participated in the drilling of 143 wells on properties in which an interest is held.

The exploratory program for the year included geophysical surveys in the Whitecourt, Greencourt and Wildcat Hills areas of Alberta and in the Kahntah and Lily Lake areas of British Columbia. Wildcat drilling was undertaken in the Keg River, Paddle River, Arrowwood and Snipe Lake areas of Alberta and at Rigel and Kahntah in British Columbia. The year was highlighted by the extension of the Rigel gas field, a gas discovery on property adjacent to our holdings at Lily Lake and an oil discovery close to our acreage at Snipe Lake, Alberta. The company's interest at Rigel, Lily Lake and Snipe Lake amount to 14,000, 24,000 and 6,000 net acres respectively.



At December 31, 1962, Canadian Petrofina's consolidated holdings totalled 5,800,000 gross acres of various types of petroleum and natural gas rights.

Your company's share of crude oil and natural gas liquids production for 1962, before royalties, increased to 4,306,000 barrels, a daily average of 11,800 barrels. Sales of natural gas amounted to approximately 19,186 million cubic feet before royalty, compared with 6,500 million cubic feet in 1961. The substantial increase in gas sales was due mainly to the commencement of operations in the Whitecourt and Wildcat Hills areas and the resultant sales of gas to Alberta and Southern Gas Company Limited, for transmission to California.

The Whitecourt plant, in which a 16⅔% interest is held, is capable of recovering a maximum volume per day of 132 million cubic feet of saleable gas, 13,500 barrels of stabilized condensate and 650 long tons of sulphur from gas produced in the Windfall field. Gas from the Pine Creek field is compressed at the Whitecourt plant and re-injected in the Windfall field to assist in the recovery of liquids from that reservoir.

At December 31, 1962, Canadian Petrofina held varying interests in 3,300 oil wells and 300 gas wells amounting to 276 net oil wells and 62 net gas wells. The oil wells in which an interest is held were producing at approximately 33% of the maximum permissible rate at year-end due to the proration of production which continues to exist in Alberta oil fields.

The 1962 development program was highlighted by drilling carried out at Boundary Lake, British Columbia, Gilby, Alberta and Midale, Saskatchewan oil fields as well as at the Rigel gas field. In addition, the construction of plant, pipeline and wellhead facilities at Whitecourt was completed.

Manufacturing

Crude oil throughput was the highest in the history of the refinery. The total crude run was 10,551,908 barrels, an increase of approximately 91,000 barrels above the figure for the previous year. On-stream time was over 90% for all units except the Hydrodesulphurization Unit.

The efforts of our Research and Development Department have resulted in the manufac-

ture and sale of a number of petroleum-based specialty products. This diversification continues to produce profits for your company, and we intend to broaden the base of our operations through the Research and Development Department in each successive year.

The more economical use of fuel in the refinery was achieved by the installation of a CO-Coke boiler. This unit operates on flue gas from the Houdry Cracking Unit and coke from the fluid coking plant. As a result, the costs of refining were again reduced.

Supply and Transportation

Deliveries of crude oil to your company's refinery through the use of ocean-going tankers and pipeline facilities amounted to 10,625,032 barrels in 1962 compared with 10,428,836 barrels in the preceding year.

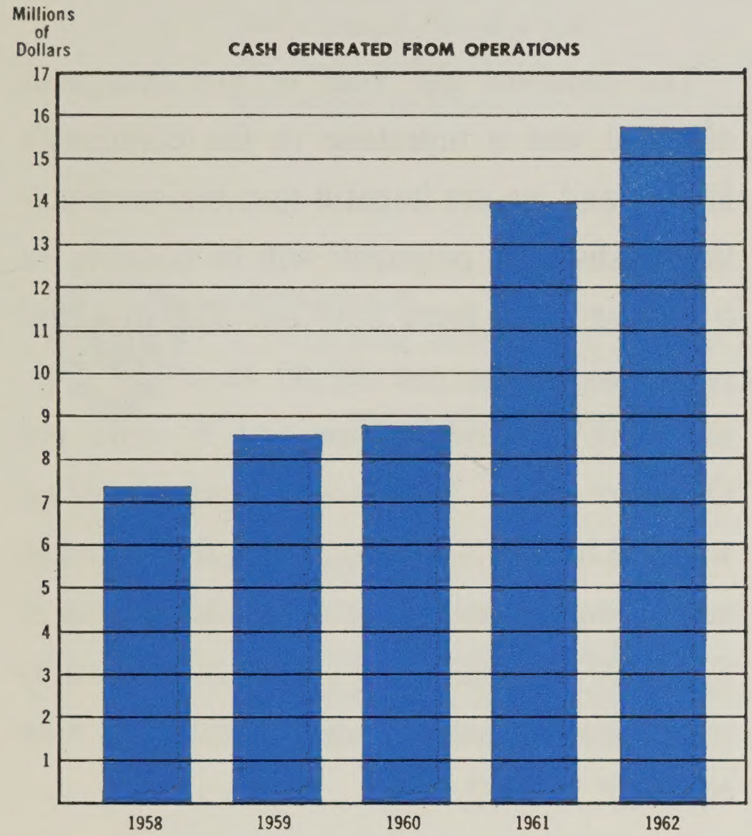
Since product movement is restricted to certain parts of Ontario by regulation of the National Energy Board, negotiations are under way to provide your company's requirements to meet sales demand in the areas affected.

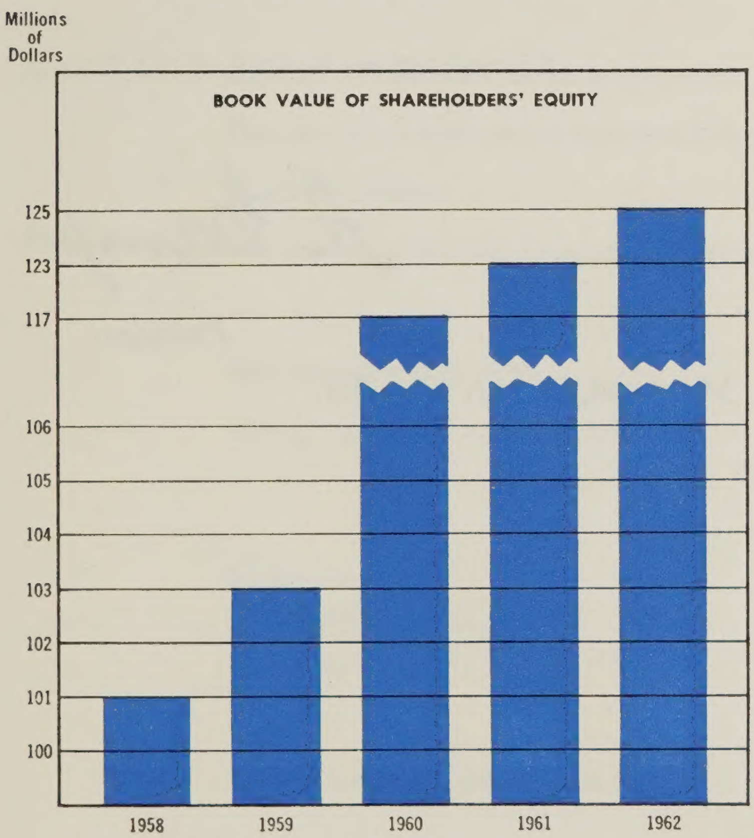
Your company's use of rail transportation increased in 1962 and at the end of the year 273 tank cars were operating in our service. This compares with 211 tank cars a year ago, the increase being required largely as a result of the expansion of your company's asphalt and aviation gasoline sales.

Marketing

During 1962, your company's marketing organization increased its sales of gasolines, middle distillates and petroleum specialty products over the previous year's figures, exceeding the average rates of increase enjoyed by the industry in the areas in which we operate. The overall sales volume increase of all products amounted to approximately 7.5% over 1961. This improvement was achieved despite the most competitive and unsettled retail sales conditions that we have ever encountered.

Among the highlights of the year's activities was our successful bid, to the Ontario Department of Highways, for the erection and operation of major service centres on highway 401, 46 miles west of Toronto. Your company was fortunate in securing two sites opposite each other, thus enabling us to serve westbound and eastbound traffic. Construction of tem-





porary facilities began immediately upon execution of the leases, and sales of gasolines to the motoring public were initiated early in July. Permanent facilities, including both service stations and modern restaurants and coffee shops were opened for business during the latter part of January 1963. Based on the results to the end of 1962, it appears that these two locations, on the most heavily travelled highway in Canada, will be a source of profit, as well as pride, to your company.

We are also pleased with the successful introduction of a number of new products during 1962, including Fina Motor Conditioner (a crankcase concentrate), Fina Household Cleaning Fluid (a solvent marketed in five grades and identified under the brand name Finasol), Fina Translube 90 (a mineral transmission oil) and Fina Cabline (an open gear and cable lubricant). These new products have already received wide acceptance in the markets for which they were designed.

Financial Revue

The consolidated net profit of the company for the year 1962 was $6,705,801 compared

with $5,516,926 in 1961. Included in the 1962 figure was a non-operating profit of $660,000.

Equating the Ordinary shares to the Participating Preferred shares on a basis of 10:1, the consolidated net earnings per share were 56.4 cents in 1961 and 68.5 cents in 1962.

The total cash obtained from consolidated operations showed a substantial improvement over the previous year. The following are the comparative figures:

000's omitted	*1962*	*1961*
Net Profit*	$ 6,046	$ 5,517
Minority Interest in Net Profits	23	23
Depreciation, Depletion, etc.	7,014	6,047
Exploration and Development expenses write-off. .	1,192	1,307
Excess Cost and Amortization write-offs	1,584	1,175
Total Cash Obtained from Consolidated operations:	$15,859	$14,069

*(excluding a non-operating profit of $660,000 in 1962)

On the foregoing share basis, cash per share obtained from consolidated operations was $1.44 in 1961 and $1.62 in 1962.

The payment last year of our first cash dividend was a milestone in the company's history and we are hopeful that the continuation of dividend payments will be possible on a regular basis from now on. The dividend paid was at the rate of 60 cents per Participating Preferred share and 6 cents per Ordinary share. The total amount involved was $4,856,069. Notwithstanding this payment and the reduction in long term indebtedness of $2,890,907, the company's consolidated working capital increased by $1,742,809, and now stands at $12,993,451.

Submitted on behalf of the Board,

A. Campo

President.

Montreal, March 15, 1963.

CANADIAN PETROFINA LIMITED
AND SUBSIDIARIES

Consolidated Statement of Profit and Loss and Earned Surplus for the year ended December 31, 1962
(with comparative figures for the year ended December 31, 1961)

	1962	1961
Gross income:		
Operating income	$81,926,325	*$66,568,966*
Interest and other income (including in 1962 a profit of $660,000 on sale of real estate)	2,624,979	*1,108,175*
	$84,551,304	*$67,677,141*
Operating charges:		
Costs, operating, selling and general expenses	$64,857,836	*$50,672,226*
Taxes other than income taxes	1,756,115	*1,411,095*
Depreciation, depletion and amortization	8,489,778	*7,115,940*
Exploration and unproductive development	1,192,362	*1,307,033*
	$76,296,091	*$60,506,294*
	$ 8,255,213	*$ 7,170,847*
Interest and discount on long-term debt	1,479,010	*1,260,771*
Income before taxes on income and minority interests	$ 6,776,203	*$ 5,910,076*
Taxes on income	$ 47,902	*$ 370,650*
Net income applicable to minority interests	22,500	*22,500*
	$ 70,402	*$ 393,150*
Net income for the year	$ 6,705,801	*$ 5,516,926*
Earned surplus at beginning of year	9,782,011	*4,265,085*
	$16,487,812	*$ 9,782,011*
Dividends:		
Preferred (note 3)	$ 3,656,069	—
Common	1,200,000	—
	$ 4,856,069	—
Earned surplus at end of year	$11,631,743	*$ 9,782,011*

CONSOLIDATED BALANCE

ASSETS	1962	1961
Current:		
Cash	$ 3,850,731	*$ 4,112,592*
Marketable securities — at cost which approximates market	78,936	*572,875*
Accounts receivable, less allowance for doubtful accounts	16,557,511	*13,136,178*
Due from affiliated companies	1,386,483	—
Income taxes refundable	—	*26,441*
Inventories — at the lower of cost or market —		
Oil products and other merchandise (note 1)	16,771,276	*15,390,137*
Materials and supplies	1,154,612	*1,307,706*
Prepaid expenses	841,825	*636,165*
Total current assets	$ 40,641,374	*$ 35,182,094*
Investments and Advances — at cost:		
Notes of affiliate	$ 4,225,000	*$ 4,225,000*
Investment in affiliated company	1,969,250	*1,969,250*
Investments in other companies	2,649,942	*3,009,517*
Exploration, development and production deposits	204,716	*209,809*
Mortgages and other advances	5,265,450	*4,677,251*
	$ 14,314,358	*$ 14,090,827*
Properties, Plant and Equipment:		
Producing, refining and marketing facilities, at cost	$174,955,222	*$169,969,671*
Less accumulated depreciation, depletion and amortization	52,184,805	*44,169,551*
	$122,770,417	*$125,800,120*
Deferred Charges:		
Unamortized debt discount and expense	$ 167,473	*$ 185,416*
Other	1,450,348	*1,532,701*
	$ 1,617,821	*$ 1,718,117*
Premium Paid on Acquisition of Subsidiaries	$ 6,473,985	*$ 6,147,095*
	$185,817,955	*$182,938,253*

On behalf of the Board:

L. Wolters, Director
A. F. Campo, Director

SHEET — DECEMBER 31, 1962

(with comparative figures at December 31, 1961)

LIABILITIES AND CAPITAL

	1962	1961
CURRENT:		
Accounts payable and accrued charges	$ 11,095,154	*$ 9,795,836*
Income taxes payable	—	*58,764*
Due to parent company	10,050,785	*7,423,508*
Notes and bills payable	3,297,656	*3,925,781*
Current maturities of long-term debt	3,204,328	*2,727,563*
Total current liabilities	$ 27,647,923	*$ 23,931,452*
ADVANCES BY PARENT COMPANY (U.S. $5,000,000) not due within one year	4,823,440	*4,823,440*
LONG-TERM DEBT (note 2)	27,808,096	*30,699,003*
MINORITY INTERESTS	500,946	*503,290*
Total liabilities	$ 60,780,405	*$ 59,957,185*
CAPITAL STOCK AND SURPLUS:		
6% non-cumulative participating preferred shares of $10 par value — Authorized: 10,000,000 shares Issued and outstanding:		
1962, 7,793,549 shares (note 3)	$ 77,935,490	
1961, 7,772,874 shares		*$ 77,728,740*
Ordinary shares of $1 par value — Authorized, issued and outstanding: 20,000,000 shares	20,000,000	*20,000,000*
Capital surplus	15,470,317	*15,470,317*
Earned surplus — per accompanying statement	11,631,743	*9,782,011*
	$125,037,550	*$122,981,068*
COMMITMENTS (note 4)		
	$185,817,955	*$182,938,253*

AUDITORS' REPORT

To the Shareholders of Canadian Petrofina Limited:

We have examined the consolidated balance sheet of Canadian Petrofina Limited and subsidiaries as at December 31, 1962 and the related consolidated statement of profit and loss and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statement of profit and loss and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Canadian Petrofina Limited and subsidiaries as at December 31, 1962 and the results of operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal,
Canada,

March 1, 1963.

CLARKSON, GORDON & CO.
Chartered Accountants.

NOTES

To Consolidated Financial Statements December 31, 1962

1. *Accounting Policies*

The policy is followed of expensing the cost of dry holes, general exploratory expenses and overhead as incurred, and of capitalizing exploratory survey expenditures and carrying charges on non-producing properties as part of the cost of such properties. Certain of the expenditures capitalized in the accounts have been claimed as deductions for income tax purposes. Depletion of producing lease and well costs is provided on the unit of production method based upon estimated reserves of oil, gas and other saleable products.

Cost of inventories of oil products has been determined on the basis of the last-in first-out method consistent with the preceding year.

2. *Long-Term Debt*

Canadian Petrofina Limited:	
4% Convertible sinking fund debentures Series A, due May 1, 1972 (issued $25,000,000 less converted into participating preferred shares or redeemed $15,496,000)	$ 9,504,000
Non-interest bearing loan due $500,000 annually September 30, 1963 to 1964 and the balance on September 30, 1965	2,336,320
Other	110,514
	$11,950,834
Subsidiaries:	
5¾% Debenture due $1,000,000 annually 1963 to 1964 and the balance on June 15, 1965	$11,500,000
6¾% First mortgage repayable in monthly instalments to May 1, 1981	2,002,392
3¾%-4½% Sinking fund bonds due July 1, 1966 and October 1, 1974	1,122,000
Secured loans repayable at the rate of $1,545,000 per annum	$ 3,555,000
Other	882,198
	$19,061,590
	$31,012,424
Less instalments included in current liabilities	3,204,328
	$27,808,096

Under the terms of the trust deed securing the 4% Convertible Sinking Fund Debentures, Series A, no cash dividends may be paid on any shares of the capital stock of the Company, if after payment of such a dividend, the consolidated net current assets would be reduced to less than 25% of the principal amount of all Series A Debentures outstanding at the time of payment of such dividend.

3. *6% Non-Cumulative Participating Preferred Shares*

Options —

The Company has reserved 285,120 shares to permit the exercise of the conversion rights attaching to the outstanding 4% Convertible Sinking Fund Debentures, Series A.

The Company has also reserved 172,825 shares for issuance under a stock option plan. As at December 31, 1962, the balance of shares not taken up under existing options is 168,225 shares, particulars being as follows:

Number of shares	*Price per share*	*Exercisable*
140,025	$10	To July 31, 1965.
8,000	$12	From November 1, 1963 to October 31, 1967.
10,000	$12½	From November 15, 1963 to November 14, 1967.
1,700	$12⅝	From February 1, 1964 to January 31, 1968.
8,500	$14	From March 1, 1964 to February 29, 1968.

During the year, options on 20,675 shares were taken up at an aggregate price of $206,750.

Dividends —

The parent company was not entitled in 1962 to dividends on the 1,700,000 fully paid participating preferred shares issued to it in connection with the acquisition of Canadian Fina Oil Limited in 1961.

4. *Commitments*

The Company has guaranteed bank borrowings of $2,593,273 of an associated company.

Annual rents on long term leases expiring more than three years after the balance sheet date amount to approximately $3,300,000.

5. *Directors' Fees and Legal Fees and Executive Remuneration*

The amounts paid during the year were as follows:

Directors' fees	$ 13,150
Legal fees and executive remuneration	$235,200

STATISTICS

AS AT DECEMBER 31ST

	1962	1961	1960	1959	1958
Crude oil and natural gas liquids production (before royalties) for the year (thousands of barrels)	4,306	3,306	2,934	2,666	2,403
Natural gas sales (before royalty) for the year (millions of cubic feet).	19,186	6,500	3,399	2,297	1,627
Number of oil wells in which Canadian Petrofina Limited held an interest*. . .	3,300	2,542	1,770	773	610
Number of gas wells in which Canadian Petrofina Limited held an interest*. . .	300	237	158	138	61
Gross acreage (thousands of acres). . .	5,800	6,180	5,300	5,040	4,945
Crude oil run to refinery stills for the year (thousands of barrels)	10,552	10,461	9,720	9,181	7,705
Retail outlets served	1,751	1,711	1,679	1,591	1,569
Number of employees	1,146	1,092	856	979	958
*Includes unitized wells.			(IN THOUSANDS OF DOLLARS)		
Gross income for the year.	84,551	67,677	61,556	59,863	54,295
Net earnings after taxes	6,706	5,517	1,031	1,376	665
Minority interest in net profits	23	23	65	79	66
Depreciation, depletion and amortization (excluding amortization of excess cost).	7,014	6,047	5,609	5,335	4,923
Amortization of excess cost over book value of subsidiaries' producing properties.	1,476	1,069	909	904	805
Exploration and development expenses written off	1,192	1,307	1,029	676	720
Amortization of patents and other costs	108	106	97	96	92
Total cash generated.	16,519	14,069	8,740	8,466	7,271
Working capital.	12,993	11,251	11,262	11,551	8,378
Total assets.	185,818	182,938	174,124	150,848	158,148
Long-term debt.	27,808	30,699	30,352	24,579	25,662
Book value of shareholders' equity. . .	125,038	122,981	117,399	103,047	101,442